

Realty Stock Review

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MARKET COMMENT: CONTINUED NEW OFFERINGS, EPIC BANKRUPTCY OPEN BUYING WINDOW

Realty stock prices have been noticeably soft the three weeks since our last issue, with only slightly over 13% (27 of 205 issues) posting advances. Another 17 held even, so that only about 21% held ground. The DJI rose 0.7% during the period (table, p. 4). All this seems to us the logical result of two contrasting trends which open a buying window. The trends:

First, a steady stream of new offerings is soaking up a lot of new money. Initial REIT offerings now top \$1.6 bil. for the year, highest in a decade, and existing REITs have raised another \$400 mil. Operating companies have sold about another \$600-\$700 mil. of equity-type offerings -- including refinancing of **General Development Corp.** and its return as a public company (p.3). That means well over \$2.5 bil. total offerings have taken funds that might otherwise go into existing stocks.

The impact on market value of REITs is especially striking. Market value of all REITs had risen 31.5% to \$6.8 bil. by the end of August, with substantially all the increase accounted for by new offerings. Three new REITs with \$269 mil. of shares floated new issues since then (see reviews, p.3-4). The number

of REITs listed in RSR has now risen from 66 to 83 this year.

Moreover, retail demand for the **Rockefeller Center Properties, Inc.** offering (see RSR, Aug. 6), which became final Sept. 12, was so strong sponsors increased the offer so that about 70% of this landmark property was sold publicly, vs. an originally planned 60%. Inevitably, some investors raised funds to buy RCPI by selling other realty stocks, thus further depressing the market.

Second, investors may be pulling back from realty stocks in wake of several massive troubled mortgage problems. Equity Programs Investment Corp. (EPIC), a Virginia syndicator which sold \$1.4 bil. mortgage backed securities, filed Chapter XI bankruptcy law protection last week after falling behind in payments. Private mortgage insurers are trying to work out a solution to their \$360 mil. exposure; Ticor Mortgage Insurance, with the largest exposure, stopped writing new business for the rest of 1985. The event casts a pall over all types of mortgage financing that depend on private insurance to enhance credit.

Washington planners are trying to work out solutions to two massive troubled loan situations: Farm Credit System officers are pressing for a "solution" to \$11 to \$17 bil. troubled farm loans

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caused by falling farm land values; and the Home Loan Bank Board is working on a plan to infuse new cash into the Federal Savings & Loan Insurance Corp., which has grown increasingly illiquid as it absorbs bad loans from failing S&Ls. FSLIC received a qualified opinion from government auditors earlier this year, first ever for a Federal insurance fund.

We aren't pushing any panic button, and we do not see any major excesses inside the REITs or realty companies similar to the middle-1970 situation. In fact, some of the best values and yields are now in the new REITs whose prices have drifted to discounts from offering prices. But investor confidence is fragile and there's always the possibility that these problems will tar realty stocks. Historically, declines from outside events have opened buying windows in quality, well run realty stocks, and now is no exception.

REALTY STOCK BRIEFS: GOOD DEALS SURFACE AS PUBLIC COMPANIES BUCK SOFT MARKETS

Public realty firms are still making good property deals in face of concern on health of property markets. Items:

Stock splits are proliferating, based on rising property values. **Hotel Investors** will split its shares 3-for-2 and increase dividends approx. 15% to holders of record Oct. 15. **HOT** also put a major asset, the Milwaukee Marriott, up for sale at a price substantially over book value in an effort to distribute some portion of unrealized appreciation to holders in the form of higher dividends. **IRT Property Co.** and **Health Care REIT** both split 3-for-2 recently.

Radice Corp. has leased the entire second building in a Pittsburgh office park; **American Standard** will lease the 100,000 sq. ft. building. **RI** expects to sell the building before end of its fiscal year next June, and will immediately begin building a 104,000 sf third building in the park.

BankAmerica Realty Investors reported current net asset value rose 7.1% in its July 1985 fiscal year, to \$33.75 per

sh. fully diluted. Operating funds available for distribution rose 3% to \$2.35/sh. for the year, and were flat at 59¢ sh. in the July quarter.

Southmark Corp. expects to earn \$1.10-\$1.15/sh. in its June quarter, last of its fiscal year, mainly from sale of a Dallas apartment project for \$12 mil. gain. **SM** should earn about \$1.80-\$1.88/sh. for the year, up 62% from restated amounts. About 50% of EPS is now coming from financial services, vs. only 10% three years ago.

Southland Financial Corp. reports about 77% of 10.2 mil. sq. ft. completed commercial space at its Las Colinas tract outside Dallas is now leased, and that about 50% of 2.1 mil. sf under construction is pre-leased. Las Colinas buildings absorbed 2 mil. sf new leases in the 12 mon. thru June. **SFIN** previously had not reported leasing progress at its major commercial development, and the reports may be aimed at alleviating concern about "see-through" buildings.

Reading Co. has agreed to sell its partnership interests in the 32-story One Reading Center in Philadelphia to **Heitman Advisory Corp.** of Chicago. **RDGC** will report about \$1.18/sh. gain in 1985 and another \$4/sh. over the next 5 yrs.

Hallwood Group Inc. reported \$400,000 gain on sale of a Long Island office on which it held a loan. The gain is past due interest and reserves.

One sour note: **Golden West Homes** discontinued its mobile home retail operations, mainly in the Pacific Northwest, at a cost of 33¢ in its May 1985 year. It also wrote down a manufactured housing tract for a total \$2.76/sh. loss for the year. Sales fell 11%.

CleveTrust Realty Investors is ordered by a Federal judge to let shareholders vote on whether or not to liquidate, and upon whether to repeal a 1982 provision (approved by shareholders) classifying the board of trustees. **CTRIS'** major shareholder, **Merchant Navy Officers Pension Plan of Britain**, has been seeking the votes.

NEW RSR LISTINGS: THREE NEW REITS AND GENERAL DEVELOPMENT BEGIN TRADING

General Development Corp., the dominant land developer in Florida, reappears in public markets for the first time in over a decade, when it was acquired by City Investing Corp. City Investing sold 4,625,000 shs., or 62% of GDV, in units of five shs. and one warrant at \$70 per unit. Separately City sold \$175 mil. of 12.63% debentures due 2005 at 85% of face value (or 14.85% effective yield) to raise about \$143.5 mil. City will then use the approx. \$200 mil. net proceeds to pay a \$4 liquidating dividend to its holders. The remaining 38% of equity interest in GDV will be transferred into a City liquidating trust to be disposed of by Dec. 1986. New shares and warrants listed on the NYSE (symbol GDV) and shares traded down to 12-5/8 and 3 respectively. We are Ranking the new shares C and add them to Group 5 - Major Homebuilders. (Denver based Wood Bros. Homes, a major Western homebuilder, was spun off Sept. 3 by City Investing and will be covered separately in a RSR review.)

The deal works out to sale of new GDV stock at about a 27% discount to fair value of GDV assets, based on an effective \$13.35/sh. sale price of GDV stock (valuing warrants at \$3.25). This is because GDV's assets and liabilities must be revalued to fair market value at date of sale under purchase accounting rules, and the net amount paid by new public investors applied to these current values. For GDV, this means net assets have fair value of \$58.6 mil. or \$7.81/sh. over the \$10.51/sh. net book value (\$78.8 mil.) computed by Audit at stated value less \$26.2 mil. debenture discount.

EPS/Dividends - C: EPS have shown modest growth with some volatility over the past five years, ranging from \$2.05/sh. to \$3.05/sh. in that time. EPS fell 29% to \$1.00/sh. in the 6 mon. thru June on a 3% revenue decline. Disposition of a utility system cost 17¢ sh. this year. GDV thus earned \$2.65 sh. in the last 12 months. A new revolving credit agreement bans dividends before Jan. 1989.

Operations: GDV had \$329 mil. reve-

nues in 1984, derived 47% from housing sales, 28% net homesite sales, 10% interest income on installment sales contracts, 7% utilities and amenities, and 4% commercial property sales. GDV operates 9 Florida communities covering 245,000 acres and plans opening a 10th of 9,300 ac. in 1986. Major communities include Port Charlotte, Port St. Lucie, and Port Malabar. GDV is also developing a 15,000 ac. Tennessee vacation project. Of 260,400 ac. total landholdings, 51.5% have been sold and paid in full; 13% sold under existing sale contracts; 5% remain to be platted; and 30% are allocated for commercial sale or development. GDV thus moves from focus on installment land sales to homebuilding on lots already sold and commercial development. GDV gross lot sales revenues have risen 7% to \$137.3 mil. the past five years, result of a 41% decline in unit sales to 9,746 in 1984 offset by an 82% price increase to \$14,085 average. House sales rose 10% in the five years to \$131.9 mil., combination of a 14% decline in unit volume to 1,925 closings in 1984 offset by a 29% average price increase to \$68,537.

Financial measures - C: Total face amount of debt is \$299.5 mil. or 3.8 times net equity of \$78.8 mil. after \$26.2 mil. debt discount. Debt is 76% long-term (58% in the new debentures, 18% notes, mortgages and leases); and 24% (or \$73.1 mil.) revolving credit under a \$130 mil. agreement at variable rates up to 1.25% over the prime rate. The credit is secured by first mortgages on \$68 mil. land inventory and an interest in about \$200 mil. installment receivables. Leverage is high and liquidity pinched, giving hope that GDV will improve as an independent.

Exposure - C: GDV has survived and grown in the firecely competitive Florida community development business. A combination of changing consumer tastes and regulation have forced the old-style installment land sellers to become true community developers with homebuilding (at lower margins than land sales) and commercial development major income sources. GDV's challenge as an independent is to cash unrealized values in its land bank as quickly as possible, to retire debt and cut its higher interest costs.

Prudential Realty Trust sold 11,115,000 units Aug. 22 at \$10 to raise \$111.35 mil. gross. PRT is the first REIT in many years to split income and appreciation benefits of its underlying properties. Hence units contained one income share entitled to receive all distributable cash from operations plus \$8 stated value upon liquidation; and one capital share entitled to all other distributions, including capital gains. Both classes and the units listed on the NYSE under PRT symbol. The income shares are treated as preferred shares by the NYSE and in our statistical analysis; the capital shares are treated as common shares and net book value is about \$1.17/sh. by Audit's analysis (the full 75¢ underwriting commission becomes a deduction to these shares). We are adding PRT to Group 1 - Property trusts, with a Finite life designation indicating intent to liquidate within approx. 12 years.

Assets: PRT is buying three completed and occupied properties from its sponsor, Prudential Insurance Co., at appraised value, as follows:

Huntington Business Campus, Melville, N.Y. on Long Island; two multi-tenanted single story offices with 152,800 net rentable sq. ft. at a price of \$18.5 mil. or \$121 per sf. Space is fully leased at \$11.77/sf average and 60% of leases expire thru 1989.

Maple Plaza I and II, Parsippany, N.J.; two single-tenanted, three story offices with 293,092 net rentable sf, on adjacent 10 ac. sites in the 400 ac. Prudential Business Campus, bought for \$45.9 mil. or \$156.60/sf. AT&T Information Systems occupies one 148,000 gross

sf building at \$16.73/sf with two 5-yr. renewals at higher rents after 1/1/89; and Nabisco leases an similar sized building at \$14.10/sf for 10-years.

Park 100, Indianapolis; complex of 19 one-story industrial warehouses on 97 ac. with 1,357,000 net rentable sf, bought for \$35 mil. or \$25.79/sf. Space is 93.5% leased at \$2.86/sf average, with 75% expiring thru 1987.

Properties are acquired free of mortgage debt, altho PRT may borrow up to \$25 mil. for property expansion.

Projections: PRT gives investors its best estimate forecast of results thru 1995 based on a 6% inflation estimate. Alternatives at 3% and 9% inflation are shown. Units would have 10.7% to 11.4% internal rate of return under the 6% forecast. Projected cash distributions should work out to about 75¢ per income share in 1986, rising to \$1 in 1994 and \$1.19 in 1995.

Lomas Mortgage Corp. and Countrywide Mortgage Investments Inc. debut as a pair of trust intending to assemble blocks (or pools) of single family residential mortgages which will be used to support periodic sale or issuance of collateralized mortgage obligations (CMOs), mortgage-backed pass-through securities, and similar instruments. Both trusts hope to profit from spread on such sales or issuances. LMC sold 5.5 mil. shs. at \$20 to raise \$110 mil.; it is managed by Lomas & Nettleton Mortgage, largest U.S. mortgage banker; shares trade NYSE. Countrywide sold 4.75 mil. shs. at \$10 and listed ASE under CWM symbol. Countrywide Credit Indust., a mortgage banker, advises.

COMPARATIVE REALTY STOCK GROUP AVERAGE 09/10/85

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANN DIV	EARN ANN	LAST PRICE	-% CHNG AUG 20	FROM— JAN 1	P/E RATIO	ANN YIELD	% PR TO BK	RETURN ON BK	MARKET VALUE
1 PROPERTY REITS	33	7	40	5316	11.19	1.20	1.18	15.25	0.2	8.0	13.0	7.9	136.3	10.5	3247.9
2 PROP & MTG COMB REITS	16	2	18	4882	13.26	1.57	2.07	17.60	-2.6	-4.9	8.5	8.9	132.7	15.6	1647.4
3 MORTGAGE REITS	13	3	16	6069	14.59	1.48	2.34	14.90	-4.7	0.2	6.4	9.9	102.1	16.0	1412.0
4 PARTICIPATING MTG REITS	10	1	11	5275	11.80	1.11	1.11	12.92	-3.2	-1.3	11.7	8.6	109.5	9.4	637.1
5 MAJOR HOMEBUILDERS	8	2	10	14241	11.42	0.30	1.38	15.33	-3.3	1.3	11.1	1.9	134.3	12.1	1889.2
6 OTHER BLDG/DEVELOPERS	9	25	34	4794	5.81	0.08	0.26	8.48	-1.7	16.8	33.3	0.9	146.0	4.4	1416.5
7 INCOME PROP BLDG/OWNR	12	9	21	6112	8.89	0.53	0.87	15.60	-1.8	6.8	18.0	3.4	175.5	9.8	2465.2
8 MORTGAGE BANKER/FINANCE	7	6	13	10132	9.99	0.67	0.50	13.30	-1.4	13.5	26.6	5.1	133.1	5.0	2525.0
9 DIVERSIFIED RLTY&HOLDING	12	10	22	18643	12.86	0.26	1.04	18.55	0.0	21.1	17.8	1.4	144.3	8.1	10942.3
10 RLTY SVCS/SYNDICATOR	6	2	8	6004	5.97	0.12	0.94	10.27	-5.1	22.5	11.0	1.1	171.9	15.7	457.2
11 MANUFACTURED HOUSING	3	8	11	10955	5.36	0.11	0.08	7.63	-1.2	-18.2	96.4	1.5	142.4	1.5	996.2
P PREFERRED STOCKS			3	2546	8.83	0.80	0.00	12.13	-1.2	20.7	NC	6.6	137.3	NC	88.7
L LIQUIDATING COS			4	6900	10.54	5.17	14.79	7.97	-2.4	-26.1	NC	NC	75.6	NC	143.4
OVERALL AVERAGE			211	7842	10.13	0.71	1.04	13.84	-1.7	6.8	13.3	5.2	136.6	10.3	27868.1
DOW JONES INDUSTRIALS							102.26	1333.45	0.7	10.1	13.0	4.6			

NOTE: LIQUIDATING COMPANIES AND PREFERRED STOCKS INCLUDED ONLY IN COMPANY AND MARKET VALUE AGGREGATES; NOT INCLUDED IN OVERALL AVERAGES.